



Department of Defense DIRECTIVE

NUMBER 5000.60

April 25, 1996

ASD(ES)

SUBJECT: Defense Industrial Capabilities Assessments

- References: (a) DoD 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) Acquisition Programs," March 15, 1996, authorized by DoD Directive 5000.1, March 15, 1996
- (b) DoD 5000.60-H, "Assessing Defense Industrial Capabilities," authorized by this Directive
- (c) DoD 5025.1-M, "DoD Directives System Procedures," August 1994, authorized by DoD Directive 5025.1, June 24, 1994

1. PURPOSE

This Directive, under reference (a):

1.1. Establishes policy and assigns responsibilities for assessing defense industrial capabilities. The purpose of the assessment is to ensure that the industrial capabilities needed to meet current and future national security requirements are available and affordable.

1.2. Provides guidelines for DoD managers to use in determining:

1.2.1. Whether a specific industrial capability is required to meet DoD needs, is truly unique, and is truly endangered; and, if so,

1.2.2. What, if any, action the Department of Defense should take to ensure the continued availability of the capability.

1.3. Authorizes the publication of reference (b) in accordance with reference (c).

2. APPLICABILITY AND SCOPE

This Directive applies to:

2.1. The Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Unified Combatant Commands, the Inspector General of the Department of Defense, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as "the DoD Components").

2.2. All goods and services procured by the Department of Defense. The DoD Components shall assess industrial capabilities on a case-by-case basis when there is a known or projected problem. The guidelines in this Directive shall be used when a DoD acquisition manager, inventory control point manager, or other buyer determines there is a substantial risk that an industrial capability needed to support DoD programs or products may be lost. For capabilities used by more than one DoD program or product, the DoD Components should coordinate analyses and related decisions with other affected DoD Components and programs.

3. DEFINITIONS

3.1. Defense Industrial Capabilities. The skills and knowledge, processes, facilities, and equipment needed to design, develop, manufacture, repair, and support DoD products. Defense industrial capabilities include private and public industrial activities.

3.2. Industrial Capability Analysis Summary Report. A report summarizing the results of an industrial capability analysis; it recommends an action or investment and addresses cost, schedule, effects on performance, and pertinent qualitative considerations. It defines how and when the action would be incorporated into the budget and, if possible, identifies budget offsets.

4. POLICY

4.1. Basis for Action. An action shall not be taken nor an investment be made to preserve an industrial capability unless it is the most cost- and time-effective alternative to meeting national security requirements. The DoD Components shall base any such determination on objective analysis.

4.2. Industrial Capabilities Analyses. An analysis shall be performed to address the criteria outlined in enclosure E1. DoD 5000.60-H (reference (b)) provides guidance on how to perform this analysis. Managers with the best knowledge of the product or service of concern should perform the analysis. The analysis must address the following questions in a formal, quantitative, and documented approach:

4.2.1. Is there a valid national security requirement for the product or service of concern to meet current or future military missions, readiness, or sustainment?

4.2.2. What industrial capabilities are essential to making the product or service?

4.2.3. Is any capability truly unique? Is any capability truly endangered?

4.2.4. Have the cost, risk, and benefit of all feasible alternatives been evaluated?

4.2.5. Is the recommended action the most cost- and mission-effective solution?

4.3. Industrial Capabilities Investment Decision Authorities. Decisions to make investments to sustain industrial capabilities shall be approved by the appropriate authority, as follows:

4.3.1. The Under Secretary of Defense for Acquisition and Technology (USD(A&T)) shall approve any proposed action or investment to preserve a capability with an anticipated cost of \$10 million or more annually. The DoD Components shall first coordinate such proposals with the Assistant Secretary of Defense for Economic Security (ASD(ES)) who shall coordinate DoD Component-proposed investments with appropriate OSD staff elements prior to USD(A&T) approval. The DoD Component proposal shall be accompanied by an industrial capability analysis summary report.

4.3.2. For Acquisition Category (ACAT) programs, the Defense Acquisition Executive (DAE) or the DoD Component Acquisition Executive (CAE), under the authority of the DoD Component head, must approve any proposed action or investment to preserve a capability with an anticipated cost of less than \$10 million annually. The proposal shall be accompanied by an industrial capability analysis summary report, with information copies to the ASD(ES) on an annual basis. DoD 5000.2-R (reference (a)) defines CAE and DAE programs.

4.3.3. For all other items or programs (that is, non-ACAT programs), the Head of Contracting Activity, under the authority of the DoD Component Head to which the item or program is assigned, shall approve decisions for investments of less than \$10 million annually. The decision shall be accompanied by an industrial capability analysis summary report, with information copies to the ASD(ES) on an annual basis.

4.3.4. If the DoD Components recommend action or investment for more than one year, they must revalidate the analysis each year to ensure DoD action is still needed.

5. RESPONSIBILITIES

5.1. The Under Secretary of Defense for Acquisition and Technology shall:

5.1.1. Make policy and investment decisions on defense industrial capabilities and approve any actions or investments of \$10 million or more annually proposed by the DoD Components to preserve industrial capability.

5.1.2. Ensure that the ASD(ES) provides DoD policy, guidance, oversight, and technical assistance on assessing or investing in defense industrial capabilities. The ASD(ES) shall coordinate on any actions or investments of \$10 million or more annually proposed by the DoD Components to preserve industrial capability and coordinate DoD Component-proposed investments with appropriate OSD staff elements before USD(A&T) approval.


5.1.3. Ensure that, for ACAT programs, the DAE or DoD CAE, under the authority of the respective DoD Component Head, approves any actions or investments of less than \$10 million annually to preserve a capability. For all other items or programs (that is, non-ACAT programs), the Head of Contracting Activity, under the authority of the DoD Component Head to which the item or program is assigned, shall approve decisions for investments of less than \$10 million annually.

5.2. The Heads of the DoD Components shall implement the policies and analyses required by this Directive and shall promulgate training and other implementation techniques as needed. The DoD Components shall coordinate industrial capability analyses and any associated action or investment decision across programs and with other affected DoD Components. The DoD Components shall provide industrial capability analysis summary reports to the ASD(ES) and the

investment decision authorities.

6. EFFECTIVE DATE

This Directive is effective immediately. DoD 5000.60-H (reference (b)) constitutes implementation of this Directive.



John P. White
Deputy Secretary of Defense

Enclosures - 1

1. Industrial Capability Assessment Criteria

E1. ENCLOSURE 1

INDUSTRIAL CAPABILITY ASSESSMENT CRITERIA

E1.1.1. Before taking action or making an investment to preserve an industrial capability, the DoD Components must validate each of the following criteria for their product or service of concern:

E1.1.1.1. The problem warrants an industrial capability analysis; it is not a routine vendor management issue.

E1.1.1.2. There is a valid national security requirement for the product or service to meet military missions, readiness, or sustainment needs or that the capability is needed to support next-generation product development or manufacture.

E1.1.1.3. The capability is truly unique. A specific industrial capability, vital to providing the product or service in question, is truly unique. Verify that capability exists only in one product or product line, and is so dissimilar from any other defense or commercial industrial capability that its loss would prohibit the Department of Defense from obtaining a defense product or service.

E1.1.1.4. The unique capability will actually be lost. Validate that one of the following conditions exists:

E1.1.1.4.1. The only supplier is exiting because the product line is not sufficiently profitable.

E1.1.1.4.2. The only supplier is exiting because the business unit is no longer financially viable.

E1.1.1.4.3. The industrial capability is technically so complex and sensitive, such an intricate combination of science and art, that any interruption or reduction in the activity will cause the capability to be effectively lost. (Answers must be based on performing a financial analysis or technical analysis, as indicated.)

E1.1.1.5. The cost, risk, benefit, and legal authority of all feasible alternatives have been evaluated. The following alternatives have been assessed:

E1.1.1.5.1. Taking no action.

E1.1.1.5.2. Using a foreign source of supply.

E1.1.1.5.3. Using an existing substitute product or capability, modifying an existing substitute product or capability, or modifying the DoD performance requirement so that a substitute product can be used.

E1.1.1.5.4. Making a buy-out to meet future DoD needs; that is, buying a sufficient quantity to meet future needs and storing the product.

E1.1.1.5.5. Applying a new technology approach to replace either the product or the capability currently used to meet DoD needs.

E1.1.1.5.6. Investing in "smart shutdown" actions; that is, purposefully preserving certain elements (equipment, skills' inventories, data, etc.) essential to regenerating a product or service, while allowing the current development or production activities to cease.

E1.1.1.5.7. Investing in an acquisition action to preserve the capability by preserving development or manufacturing activity for the current product.

E1.1.1.5.8. Relieving or adding specific contract, policy, procurement, or export conditions that are hampering DoD access to a wider set of suppliers, or hampering endangered suppliers from potentially improved business opportunities.

E1.1.1.6. The recommended action is the most cost and mission effective solution to ensuring that, based on the analysis, the Department of Defense can meet its mission.

E1.1.1.7. DoD Component budget dollars and legal authority needed to make this investment have been identified.